

the Kroger co. / annual report 1958



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TRANSFER AGENTS The Provident Savings Bank and Trust Company,
Cincinnati
Bankers Trust Company, New York

REGISTRARS The Central Trust Company, Cincinnati
The Chemical Corn Exchange Bank, New York



Highlights

	1958	1957	INCREASE
SALES	\$1,776,175,147	\$1,674,123,593	6%
NET INCOME BEFORE TAXES	\$ 44,432,930	\$ 41,505,207	7%
NET INCOME	\$ 21,629,930	\$ 20,635,207	5%
NET WORTH	\$ 158,573,593	\$ 143,730,410	10%
CAPITAL EXPENDITURES	\$ 48,775,194	\$ 46,085,612	6%
STORES	1,428	1,421	—
NEW STORES OPENED	100	140	—29%

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President's Letter

To Our Shareowners:

Sales and earnings reached new highs in 1958.

Earnings at Record High

Net income was \$21,629,930, an increase of 5% over 1957. Net income was equal to \$1.76 each on the 12,319,317 shares outstanding at the year end. This compares with 1957 net income of \$1.70 per share on the 12,144,414 shares outstanding on December 28, 1957. All figures are after adjustment for the three-for-one stock split approved by shareowners December 10, 1958.

Sales Increase

Sales of \$1,776,175,147 exceeded 1957 by 6%. Average sales per store were \$1,257,914 in 1958 as compared to \$1,157,006 in 1957 and \$982,589 in 1956.

Stock Split and Dividends

At a special meeting held December 10, 1958, shareowners approved a three-for-one split of the common stock. At the same meeting, the authorized shares were increased from five million to

Earnings

1958	\$21,629,930
1957	\$20,635,207
1956	\$17,071,250
1955	\$14,368,292
1954	\$14,912,912

Sales

1958	\$1,776,175,147
1957	\$1,674,123,593
1956	\$1,492,552,233
1955	\$1,219,474,812
1954	\$1,108,694,168

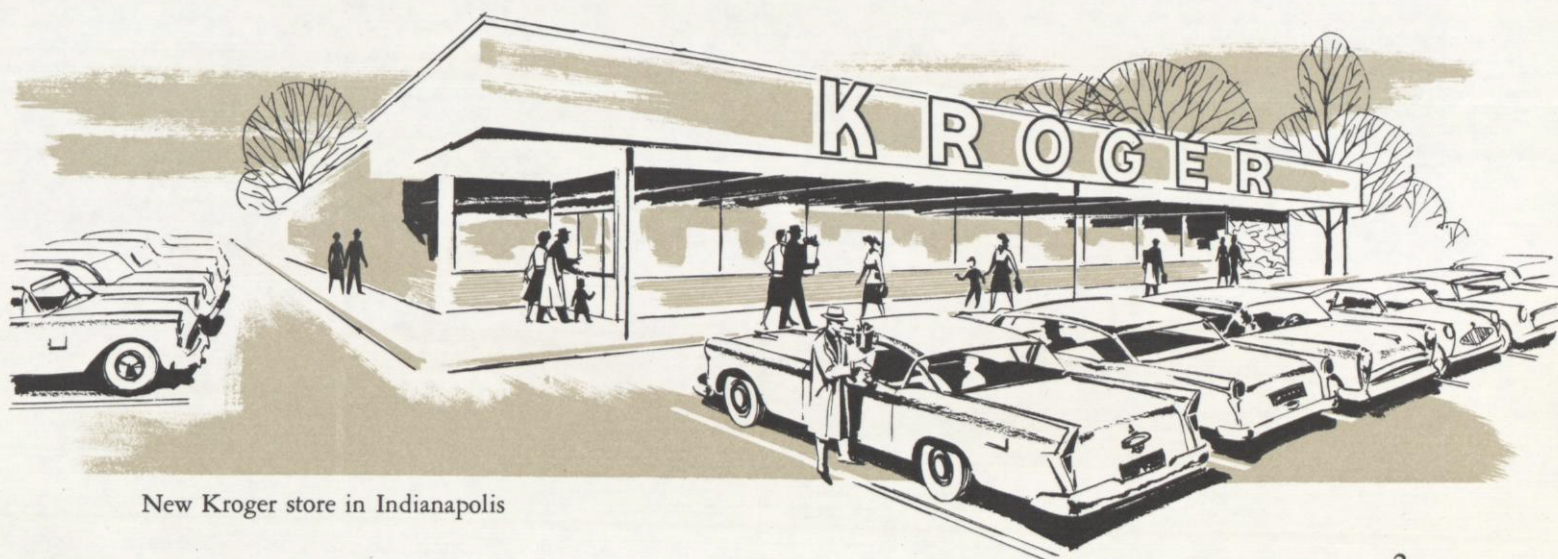
eighteen million. For each share held of record on December 22, 1958, two additional shares have been mailed to shareowners.

The present quarterly dividend rate on the common stock is equivalent to an annual dividend rate of 90 cents per share. The previous annual dividend was equivalent to $66\frac{2}{3}$ cents per share after adjusting for the three-for-one stock split. Thus, the current dividend represents a 35% increase over the previous rate. This marks Kroger's 57th year of uninterrupted dividends. Every dividend paid during this period was fully earned in the year paid. Beginning with 1956, the company has paid out a reduced percentage of its earnings in order to help finance the replacement of its physical facilities. This improvement and modernization program is now nearing completion.

Financial Position Stronger

Cash at the year end was \$52,566,148—an increase of 22% over year end 1957. Net working capital of \$86,679,309 exceeded working capital at the end of 1957 by 19%. Total inventories of \$116,628,932 were equivalent to 6.6% of 1958 sales. At the end of 1957, total inventories were 6.7% of 1957 sales. The company's year-end receivables of \$21,161,388 included \$13,072,571 of funds available to the company under previously arranged sale and leaseback transactions.

In September, the company borrowed \$11,000,000 through the issuance of notes, 30% of which mature in 1961 and 70% in 1962. The interest rate fluctuates in relation to the prime rate from a minimum of 3% to a maximum of $4\frac{1}{2}$ %. In October, the company arranged to borrow \$10,000,000 through the issuance of 20 year, $4\frac{3}{4}$ % notes. The company received \$7,000,000 of this total in November and the \$3,000,000 balance will be received in 1959.



New Kroger store in Indianapolis

Stores

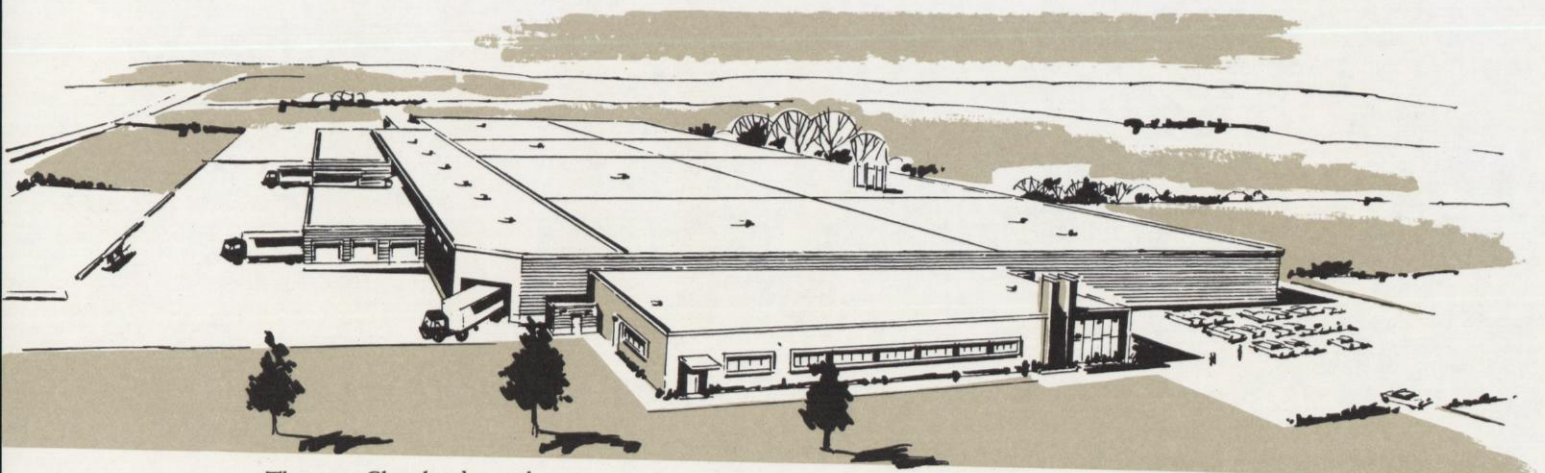
Kroger opened 100 new stores in 1958. 137 older stores were closed. There were 34 major remodels. Capital expenditures for store equipment and leasehold improvements were \$14,748,107. For the next few years we anticipate the continuation of the store program at approximately the 1958 level.

During the year 44 stores were acquired. At the close of 1958, Kroger was operating 1,428 stores as compared to 1,421 a year ago. This marks the first time since 1929 that the number of stores has increased over the prior year. During this 30-year period, the number of stores declined by 4,147 but average annual sales per store increased from \$52,168 to \$1,257,914.

Distribution Centers

The replacement of distribution centers continued at a rapid pace in 1958. The Detroit center, which has approximately fifteen acres under one roof, was occupied in August. The Cleveland and Indianapolis centers were occupied in January 1959. Construction of new distribution centers is under way in Memphis, Peoria, Roanoke and St. Louis. Enlargement of existing facilities was completed in Louisville, Nashville and Toledo. Enlargement of the Atlanta center is scheduled for 1959. Capital expenditures for distribution centers were \$17,839,176.

The new distribution center program is nearing completion. By the end of 1959, Kroger will have modern, efficient distribution centers in all but three divisions. Plans for these three divisions are being developed. By the time this program is completed, Kroger will have spent approximately \$70,000,000 on new distribution centers.



The new Cleveland warehouse

Manufacturing

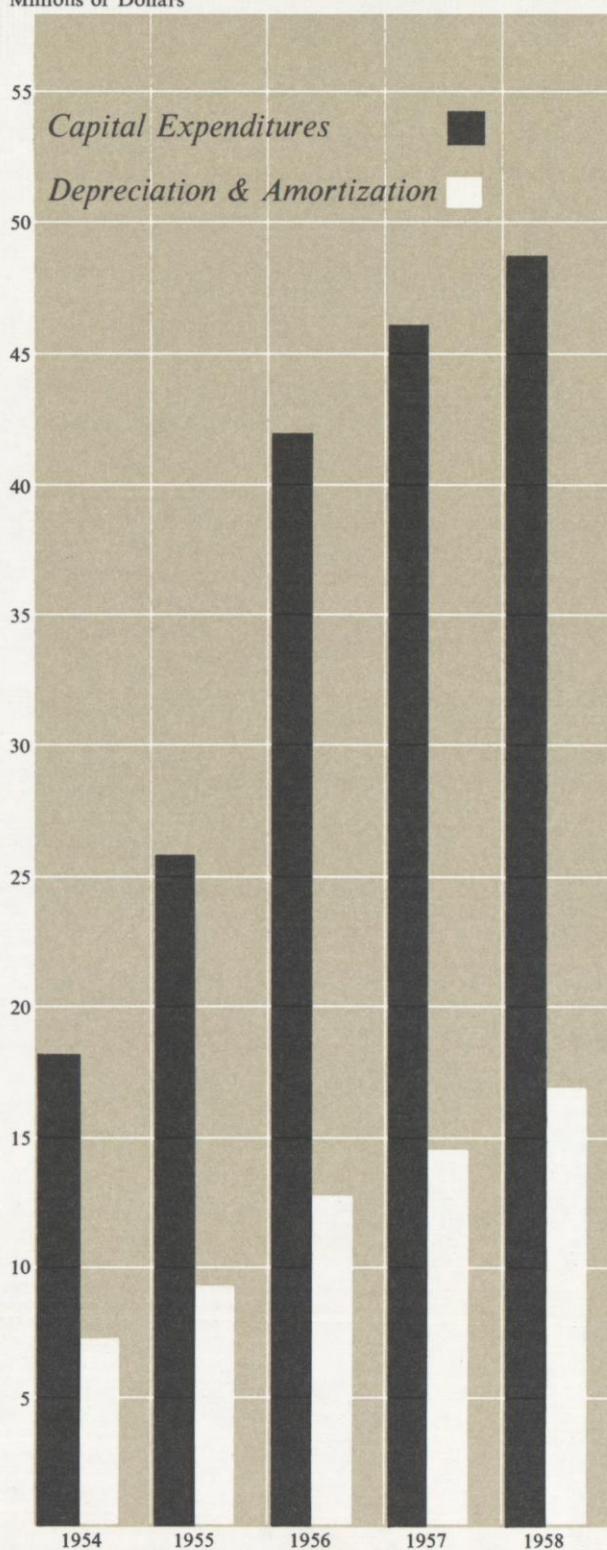
Modernization of bakeries is proceeding. The new Shreveport Bakery was opened on schedule. The new Detroit Bakery will be in operation in the spring of this year. The Indianapolis Bakery will be opened in the fall. The Cleveland Bakery will be completed in about a year.

Highly efficient mechanized equipment has been installed in the egg grading plant at Wabash, Indiana. New instant milk facilities will be completed at Marion, Indiana in 1959. The new Indianapolis Dairy will be in operation in 1959. Capital expenditures for manufacturing facilities were \$8,972,962.

Transportation

The transportation fleet was further expanded in 1958. As new warehouses are completed, more efficient transportation equipment can be utilized. At the end of 1958, Kroger owned 1,008 tractors and 2,043 trailers. Capital expenditures for transportation equipment were \$3,906,362 in 1958.

Millions of Dollars



Capital expenditures for all purposes were \$48,775,194 in 1958. Depreciation and amortization were \$17,047,484. In 1957 the like figures were \$46,085,612 and \$14,504,513.

Wyatt Food Stores

Kroger entered the Dallas-Ft. Worth area in August through merger with thirty-eight Wyatt and six affiliated Evans Food Stores. This continues the company's expansion into Texas which began in 1955 with Henke & Pillot and Childs Food Stores. Wyatt's average annual sales per store were \$1,402,024 in 1958. A sixty acre tract of land in Irving, Texas was recently purchased to provide space for a new modern distribution center for the expanding Wyatt operation. Construction of this facility has already begun.

Mr. William L. Martin, formerly Executive Vice President and a Wyatt employee for many years, was named President of the Wyatt Division in January, 1959. He succeeded Mr. Robert S. Bell, who became Chairman following the retirement of Mr. Earle Wyatt, founder of the company bearing his name.

Organization

Mr. William E. Carter resigned as a Director and Vice President of the company in November for reasons of health. He had been an effective member of management for 28 years. In December Mr. Thomas T. Oyler, Vice President and Secretary, was elected to the Board of Directors. Mr. Robert Montgomery was elected a Vice President. His responsibilities include real estate, warehousing, transportation and works methods. Mr. Montgomery joined the company in 1954 as Director of Property.

More than 500,000 shares of Kroger stock are owned directly or beneficially by 25,267 employees and executives. The community of interest among employees, management and shareowners is an important factor in the steady growth in the value of the shareowners' equity.



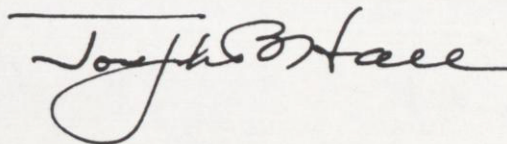
The Year in Retrospect

Kroger sales and earnings improved steadily during the early months of 1958. The recession did not reach our business until mid-year when continued heavy unemployment, especially in the Michigan, Indiana, Ohio area, adversely affected consumer food purchases. The retail food industry was one of the last to feel the economic pinch. Sales were unsatisfactory during the summer and early fall. Labor difficulties within and without the company also affected profits. However, recovery was noticeable by October and the year ended with sales and earnings at record levels.

Outlook for 1959

Forecasts indicate steady business activity in the year ahead. Consumer expendable income should improve. Food prices are expected to be lower. These factors should provide a high level of food buying. Competition will remain aggressive. 1958 ended on a high note. The continued strengthening of the management team, modern physical facilities and the improved economic climate should produce good results for 1959.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Joseph B. Hare". The signature is fluid and cursive, with a long horizontal line extending from the end.

President

February 6, 1959.

The Kroger Co. • Consolidated Balance

ASSETS

	<u>Dec. 27, 1958</u>	<u>Dec. 28, 1957</u>
Cash	\$ 52,566,148	\$ 42,927,467
Receivables	21,161,388	8,823,382
Merchandise inventories (Note 1)	116,628,932	111,474,382
Store and general supplies.....	5,564,294	6,364,203
Prepaid and miscellaneous assets.....	<u>2,125,793</u>	<u>2,322,597</u>
TOTAL CURRENT ASSETS.....	198,046,555	171,912,031
Investment in unconsolidated subsidiaries, at cost (Note 2).....	2,643,948	1,865,489
Land, at cost or less.....	4,074,692	3,556,763
Leaseholds and leasehold improvements, net.....	28,189,213	22,115,092
Buildings, at cost or less.....	21,458,958	17,180,905
Machinery and equipment, at cost.....	150,064,772	129,316,636
Less allowance for depreciation.....	<u>(73,282,827)</u>	<u>(63,302,755)</u>
NET FIXED ASSETS.....	<u>130,504,808</u>	<u>108,866,641</u>
TOTAL ASSETS	\$331,195,311	\$282,644,161

Sheet • December 27, 1958 and December 28, 1957

LIABILITIES

	<u>Dec. 27, 1958</u>	<u>Dec. 28, 1957</u>
Accounts payable	\$ 63,311,532	\$ 54,278,780
Accrued expenses	28,961,158	26,399,689
Provision for federal taxes.....	<u>19,094,556</u>	<u>18,096,624</u>
TOTAL CURRENT LIABILITIES.....	111,367,246	98,775,093
Long-term indebtedness (Note 3).....	54,455,814	34,700,000
Reserve for deferred federal taxes.....	4,510,000	3,150,000
Employees' benefit fund.....	2,288,658	2,288,658
CAPITAL		
Preferred capital stock, par \$100:		
Outstanding:		
6% Series	27,700	27,900
7% Series	7,600	7,600
Common capital stock, par \$1 (Note 4):		
Authorized: 1958, 18,000,000 shares; 1957, 5,000,000 shares		
Outstanding: 1958, 12,319,317 shares; 1957, 4,048,138 shares	54,460,741	52,356,621
Accumulated earnings (Note 3).....	<u>104,077,552</u>	<u>91,338,289</u>
TOTAL CAPITAL	<u>158,573,593</u>	<u>143,730,410</u>
TOTAL LIABILITIES & CAPITAL.....	\$331,195,311	\$282,644,161

Consolidated Statement of Income

Years Ended December 27, 1958 and December 28, 1957		
	1958	1957
Sales	\$1,776,175,147	\$1,674,123,593
Cost of sales.....	1,448,230,121	1,370,175,183
Operating and general expenses.....	<u>283,512,096</u>	<u>262,443,203</u>
Total.....	<u>\$1,731,742,217</u>	<u>\$1,632,618,386</u>
Income before federal taxes on income.....	44,432,930	41,505,207
Federal taxes on income.....	<u>22,803,000</u>	<u>20,870,000</u>
Net income	\$ 21,629,930	\$ 20,635,207

Consolidated Statement of Accumulated Earnings

Year Ended December 27, 1958		
Accumulated earnings—December 28, 1957.....		\$ 91,338,289
Net income for 1958.....	\$21,629,930	
Dividends.....	<u>8,890,667</u>	<u>12,739,263</u>
Accumulated earnings—December 27, 1958.....		\$104,077,552

Notes to Financial Statements

1. Merchandise inventories are valued in part on the Lifo basis and in part at the lower of cost or market.
2. All wholly-owned subsidiaries have been included in consolidation. The company's equity in the net assets of unconsolidated subsidiaries amounted to \$3,095,078 at December 27, 1958. No dividends were received from these subsidiaries in 1958. The company's equity in earnings of unconsolidated subsidiaries for 1958 amounted to \$1,328,122.
3. Long-term indebtedness:

3.1% notes maturing October 1, 1971; annual prepayments of \$700,000, without premiums, required beginning October 1, 1961.....	\$14,000,000
3 1/4% notes maturing June 1, 1963.....	20,000,000
3% to 4 1/2% notes maturing in two installments, 30% on September 25, 1961, and 70% on September 25, 1962.....	11,000,000
4 3/4% promissory notes maturing November 5, 1978.....	7,000,000
Other	2,455,814
	\$54,455,814

Under certain of the loan agreements, payments of cash dividends are limited. At December 27, 1958, accumulated earnings unrestricted, under the agreement carrying the maximum limitation, amounted to \$22,843,183.

4. Options to officers and executives to purchase 287,178 shares of Kroger common stock were in force at December 28, 1957, and 65,325 shares were available for options at that time. Option transactions during the year may be summarized as follows: granted 10,800 shares; exercised 58,301 shares at \$29.82 to \$67.25 per share; expired or cancelled 9,374 shares. All of the above transactions occurred prior to the three-for-one common stock split effective December 22, 1958. The split caused the number of shares under option and the number of shares available for option to be increased on the basis of three-for-one because of the anti-dilution provisions of the stock option plans. Options to purchase 690,908 shares were in force at December 27, 1958. Shares available for options at that time were 179,267. Options for 96,755 shares were exercisable at December 27, 1958.

Report of Certified Public Accountants

LYBRAND, ROSS BROS. & MONTGOMERY CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors,
The Kroger Co.
Cincinnati, Ohio

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary companies as of December 27, 1958, and the related consolidated statements of income and accumulated earnings for the fiscal year (fifty-two weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of income and accumulated earnings present fairly the consolidated financial position of The Kroger Co. and subsidiary companies at December 27, 1958, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Lybrand, Ross Bros. & Montgomery

Cincinnati, Ohio
February 6, 1959

The Kroger Co. • Ten Year Statistical

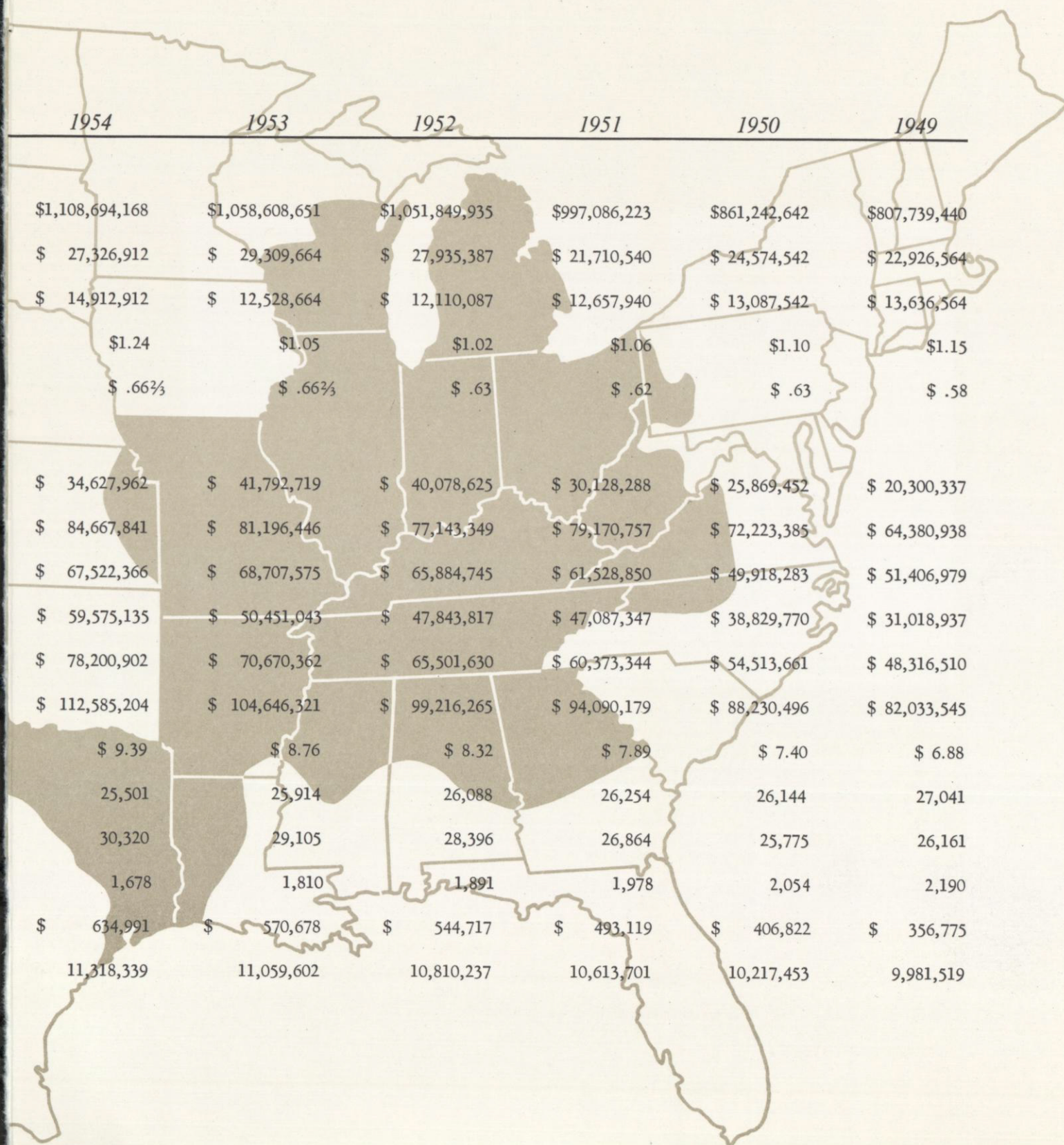
	1958	1957	1956	1955
<i>For the Year</i>				
SALES.....	\$1,776,175,147	\$1,674,123,593	\$1,492,552,233	\$1,219,474,812
NET INCOME BEFORE TAXES...	\$ 44,432,930	\$ 41,505,207	\$ 34,515,450	\$ 27,994,575
NET INCOME.....	\$ 21,629,930	\$ 20,635,207	\$ 17,071,250	\$ 14,368,292
NET INCOME PER SHARE (1)...	\$1.76	\$1.70	\$1.41	\$1.20
DIVIDENDS PER SHARE (2).....	\$.72 ½	\$.66⅔ (3)	\$.66⅔ (3)	\$.66⅔
<i>At the Year End</i>				
CASH.....	\$ 52,566,148	\$ 42,927,467	\$ 41,518,152	\$ 40,696,076
MERCHANDISE INVENTORIES...	\$ 116,628,932	\$ 111,474,382	\$ 106,274,996	\$ 95,112,775
NET WORKING CAPITAL.....	\$ 86,679,309	\$ 73,136,938	\$ 71,945,596	\$ 79,180,095
NET FIXED ASSETS.....	\$ 130,504,808	\$ 108,866,641	\$ 95,528,379	\$ 79,616,588
ACCUMULATED EARNINGS.....	\$ 104,077,552	\$ 91,338,289	\$ 87,656,514	\$ 85,163,541
NET WORTH.....	\$ 158,573,593	\$ 143,730,410	\$ 130,159,964	\$ 119,910,406
NET WORTH PER SHARE (1)...	\$12.87	\$11.83	\$10.77	\$ 9.97
NUMBER OF SHAREOWNERS....	28,514	26,583	26,621	26,596
NUMBER OF EMPLOYEES:.....	40,500	39,389	36,807	33,705
NUMBER OF STORES.....	1,428	1,421	1,476	1,587
ANNUAL SALES PER STORE	\$ 1,257,914	\$ 1,157,006	\$ 982,589	\$ 740,871
TOTAL STORE AREA (Square Feet)	16,805,232	15,092,774	13,918,774	12,750,326

(1) Adjusted for 3 for 1 split in 1958, 4% common stock dividends in 1956 and 1957, and 2 for 1 split in 1950.

(2) Adjusted for 3 for 1 split in 1958 and 2 for 1 split in 1950.

(3) Plus 4% stock dividend.

Summary



1954	1953	1952	1951	1950	1949
\$1,108,694,168	\$1,058,608,651	\$1,051,849,935	\$997,086,223	\$861,242,642	\$807,739,440
\$ 27,326,912	\$ 29,309,664	\$ 27,935,387	\$ 21,710,540	\$ 24,574,542	\$ 22,926,564
\$ 14,912,912	\$ 12,528,664	\$ 12,110,087	\$ 12,657,940	\$ 13,087,542	\$ 13,636,564
\$1.24	\$1.05	\$1.02	\$1.06	\$1.10	\$1.15
\$.66⅔	\$.66⅔	\$.63	\$.62	\$.63	\$.58
\$ 34,627,962	\$ 41,792,719	\$ 40,078,625	\$ 30,128,288	\$ 25,869,452	\$ 20,300,337
\$ 84,667,841	\$ 81,196,446	\$ 77,143,349	\$ 79,170,757	\$ 72,223,385	\$ 64,380,938
\$ 67,522,366	\$ 68,707,575	\$ 65,884,745	\$ 61,528,850	\$ 49,918,283	\$ 51,406,979
\$ 59,575,135	\$ 50,451,043	\$ 47,843,817	\$ 47,087,347	\$ 38,829,770	\$ 31,018,937
\$ 78,200,902	\$ 70,670,362	\$ 65,501,630	\$ 60,373,344	\$ 54,513,661	\$ 48,316,510
\$ 112,585,204	\$ 104,646,321	\$ 99,216,265	\$ 94,090,179	\$ 88,230,496	\$ 82,033,545
\$ 9.39	\$ 8.76	\$ 8.32	\$ 7.89	\$ 7.40	\$ 6.88
25,501	25,914	26,088	26,254	26,144	27,041
30,320	29,105	28,396	26,864	25,775	26,161
1,678	1,810	1,891	1,978	2,054	2,190
\$ 634,991	\$ 570,678	\$ 544,717	\$ 493,119	\$ 406,822	\$ 356,775
11,318,339	11,059,602	10,810,237	10,613,701	10,217,453	9,981,519

